

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission
On its Own Motion

-vs-

Northern Illinois Gas Company
d/b/a Nicor Gas Company

Reconciliation of revenues collected
under gas adjustment charges with
actual costs prudently incurred.

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Docket No. 03-0703

REPLY BRIEF OF THE STAFF
OF THE ILLINOIS COMMERCE COMMISSION

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Staff of the Illinois Commerce Commission (“Staff”), by and through its counsel, pursuant to Section 200.800 of the Rules of Practice (83 Ill. Adm. Code 200.800) of the Illinois Commerce Commission (“Commission”), respectfully submits its Reply Brief (“RB”) in the above-captioned matter.

I. INTRODUCTION

A. Procedural Background

Staff’s Initial Brief (“IB”) was filed and served on Northern Illinois Gas Company d/b/a Nicor Gas (“Nicor” or “Company” or “Nicor Gas”), the Citizens Utility Board (“CUB”), the People of the State of Illinois by Attorney General Lisa Madigan (“AG”) and the Administrative Law Judge (“ALJ”) on April 29, 2015. The Company, CUB and AG (collectively “CUB-AG”) also filed and served their IBs in this matter on the same day. Many of the issues raised in Nicor’s IB and CUB-AG’s IB were addressed in Staff’s IB.

The absence of a response to a specific issue raised in Nicor's IB or CUB-AG's IB in this RB does not constitute a change of position from the Staff IB. Staff's RB follows.

B. Legal Standards

As set forth in Staff's IB, Section 9-220(a) of the Illinois Public Utilities Act ("PUA") is the section at issue in this proceeding. During calendar year 2003, the Company recovered its gas costs through a purchased gas adjustment ("PGA") charge authorized by Section 9-220 of the PUA. Section 9-220 of the PUA provides that the Commission may authorize an increase or decrease in rates and charges based upon changes in the cost of purchased gas through the application of a purchased gas adjustment clause. Section 9-220(a) requires the Commission to initiate annual public hearings to:

determine whether the clauses reflect actual costs of fuel, gas, power, or coal transportation purchased to determine whether such purchases were prudent, and to reconcile any amounts collected with the actual costs of fuel, power, gas, or coal transportation prudently purchased. In each such proceeding, the burden of proof shall be upon the utility to establish the prudence of its cost of fuel, power, gas, or coal transportation purchases and costs. ...

(220 ILCS 5/9-220(a).)

For gas purchases, the provisions of Section 9-220 of the PUA are implemented in 83 Ill. Adm. Code 525, "Uniform Purchased Gas Adjustment Clause", ("Part 525"). Section 525.40 of Part 525 identifies gas costs which are recoverable through a PGA. Adjustments to gas costs through the Adjustment Factor are addressed in Section 525.50. The gas charge formula is contained in Section 525.60. Annual reconciliation procedures are described in Section 525.70. Part 525, which was in effect during 2003, was adopted by the Commission in Docket No. 94-0403. (ICC on its Own Motion, ICC Docket No. 94-0403 (August 23, 1995)) It became effective on November 1, 1995.

Staff, the Company and CUB-AG all agree that the prudence standard to be applied in this matter is as follows:

Prudence is that standard of care which a reasonable person would be expected to exercise under the same circumstances encountered by utility management at the time decisions had to be made. In determining whether a judgment was prudently made, only those facts available at the time judgment was exercised can be considered. Hindsight review is impermissible.

(Staff IB, 4; Nicor IB, 15; CUB-AG IB (Public), 5-6.)

Nicor Gas agrees with Staff that the burden of proof is on Nicor Gas to establish the prudence of its costs of gas purchases and related costs. (220 ILCS 5/9-220(a)). (Nicor IB, 17.) As Staff set forth in its IB, Nicor Gas has the burden to prove this by a preponderance of the evidence. (5 ILCS 100/10-15). Preponderance of the evidence has been defined as the evidence that is more probably true than not. (See, e.g., Witherell v. Weimer, 118 Ill. 2d, 321, 336, 515 NE2d 68 (1987)).

II. ARGUMENT

A. Uncontested Issues

1. Correction to Factor A adjustments amortized as of December 31, 2003.

Staff and Nicor agree that this issue is uncontested. Staff recommended a correction to the amount of the Factor A amortized as of December 31, 2003 that Nicor reported in its 2003 PGA reconciliation. In its 2003 reconciliation, Nicor reported a different amount of Factor A amortized at December 31, 2003 from that which it had reported on its monthly filing for December 2003 actual amounts. The Factor A component in the reconciliation must reflect the same amount as that reported on the monthly filing. (Staff Ex. 1.0 Rev., 2:36-43; 83 Ill. Adm. Code 525.70(b).)

Nicor agreed to Staff's adjustment in its rebuttal testimony and confirmed that in its IB. (Nicor Ex. 5.0, 8:162-164; Nicor IB, 17.)

2. Interest on unamortized balances.

Staff and Nicor are in agreement that this issue is uncontested. Staff proposed an adjustment to Nicor's reported amount of interest on unamortized balances since the months of data used to calculate interest by Nicor in its reconciliation differed from the amounts reported in its monthly filings throughout 2003. (Staff Ex. 1.0 Rev., 3:46-49.)

Nicor disagreed with Staff's recommendation, arguing that it was simply a timing difference. (Nicor Ex. 5.0, 4:78-80.)

Staff withdrew the adjustment in its rebuttal testimony since the dollar amounts in 2003 were relatively small; ultimately, due to the mechanism of the PGA clause, both the ratepayers and Nicor will be made whole over time. (Staff Ex. 1.0 Rev., 3:48-51.)

Nicor's IB accurately reflects that Staff withdrew this adjustment. (Nicor IB, 17.)

B. Contested Issues

1. Dr. Rearden's Hub Adjustments

a. Nicor Gas' treatment of Non-PGA Hub revenues was not in conformance with Part 525 of the Commission's Rules governing the PGA.

In accordance with Section 525.40 (d) of the Commission's rules, all Hub revenues, not just certain Hub revenues, must offset PGA costs, because the Hub uses assets whose costs are recovered in the PGA. In particular, Section 525.40 (d) states:

Recoverable gas costs shall be offset by the revenues derived from transactions at rates that are not subject to the Gas Charge(s) if any of the associated costs are recoverable gas costs as prescribed by subsection (a) of this Section. This subsection shall not apply to transactions subject to rates contained in tariffs on file with the Commission, or in contracts entered into pursuant to such tariffs, unless otherwise specifically provided for in the tariff. Taking into account the level of additional recoverable gas costs that must be incurred to engage in a given

transaction, the utility shall refrain from entering into any such transaction that would raise the Gas Charge(s).

83 Ill. Adm. Code 525.40 (d). Staff witness David Rearden provided two reasons that Hub services used services or assets whose costs are recovered in the PGA. One, the only source for the gas loaned to Hub customers was PGA gas, (Staff Ex. 4.0 (Public), 12:250-252) and two, displacement. (Id., 12:253-13:277.) The PGA gas was the only source of gas that Nicor could loan to Hub customers. Nicor witness Sherwood agreed that there is a tradeoff between deliveries from an interstate pipeline and deliveries from Nicor's storage fields. (Tr. 50:6-8, March 17, 2015.) In addition, he admits that gas purchased to supply PGA customers is "co-mingled" with transportation customers' gas and line-pack. Finally, while he maintains that PGA gas was not used to support the Hub loans, he does not indicate the Hub gas' source. (Id., 102-105.)

Displacement means that gas received by any one entity (sales or transportation customer, off-systems sales buyer or Hub customer) is not dependent on the contractual source. (Staff Ex. 4.0 (Public), 12:255-277.) That is, Nicor must deliver the gas that sales and transportation customers demand. It must also fulfill Hub contracts for gas delivery, either by returning gas previously stored with Nicor or in the form of Nicor loans to Hub customers that they repay later. The gas is the same. Id. It is not relevant whether the PGA gas is physically derived from PGA assets, or the transportation gas only comes from transporters deliveries plus bank withdrawals, or Hub customers receive their physical gas from 'Hub assets'. Nicor need only balance the entire system and bill everybody the appropriate amount. Nicor witness Gulick did not agree that Hub services are provided by displacement. (Nicor Ex. 7.0, 13:259-269.) However, Staff asked in a data request, "[i]s displacement ever used to provide HUB services?" Nicor responded:

Yes. Hub services may use displacement as a means to improving overall efficiency of the use of Nicor Gas' assets. Displacement is a means of increasing the efficiency of Nicor Gas' operations and is facilitated through the diverse nature of Nicor Gas' assets in general. Further, displacement may result from Nicor Gas providing HUB transactions that are offsetting (for example, the scheduling of HUB injections and withdrawals on the same day)." Staff Cross Ex. 7.0 (ENG 2.78.)

The Company argues that its treatment of Hub net revenues was in conformance with Nicor Gas' tariffs and Commission Orders in force in 2003. (Nicor IB, 20.) Nicor cites to the Commission's orders in Docket No. 93-0320 and 95-0219. Nicor sates that "the Commission should apply the rules that were in place during the 2003 reconciliation period." (Id. at 21.) Nicor does not address the fact that Commission orders are not *res judicata* on the Commission. That is "[t]he Commission is not a judicial body and its orders do not have the effect of *res judicata*; the Commission, as a regulatory body must have the authority to address each matter before it freely, even if it involves issues identical to a previous case." (citing Mississippi River Fuel Corp.) (Lakehead Pipeline Co. v. Illinois Commerce Commission, 296 Ill.App.3d 942, 956 (1998)) Therefore the Commission can depart from prior orders, as long as it provides a reasoned basis for doing so. (Citizens Utility Board v. Illinois Commerce Commission, 166 Ill.2d 111, 132 (1995)) In this matter, as discussed above and in Staff's IB, Dr. Rearden provided two reasons: (1) The only source for the gas loaned to Hub customers was PGA gas; and (2) Displacement, for the Commission to depart from its prior order in Docket Nos. 93-0320 and 95-0219 and find that Hub services used services or assets whose costs are recovered in the PGA and therefore under the Commission rule in place during 2003 all Hub revenues should be credited to the PGA.

b. Even if the Commission finds that its orders in Docket Nos. 93-0320 and 95-0219 are controlling, which they are not, the Company still failed to meet its burden of proof.

Nicor argues that it recorded its Hub revenues in compliance with the then-applicable Commission Orders (i.e. Docket Nos. 93-0320 and 95-0219). (Nicor IB, 21-22.) Staff addressed this issue in its IB. If the Commission disagrees with Staff's primary argument that all Hub revenues should be credited to the PGA, which it should not, the Commission should still adopt Staff's \$8,209,614 adjustment to the Company's 2003 PGA reconciliation. (Staff Ex. 4.0 Public, 13, 279:281.) Adopting Staff's adjustment would still be appropriate, since the Company has the burden of proof and has failed to meet that burden as required under Section 9-220(a) of the PUA. ("...the burden of proof shall be upon the utility to establish the prudence of its cost of fuel, power, gas or coal transportation purchases and costs.") (220 ILCS 5/9-220.)

The Company has failed to show that Staff's \$8,209,614 adjustment for what the Company claims are "non-PGA revenues" are not subject to the general rule that Hub revenues were to offset PGA costs. The Company failed to provide relevant detailed evidence that the over \$8 million in Hub revenues identified by Staff witness Dr. Rearden should not flow through the PGA to offset PGA costs. As discussed above, Section 525.40(d) of the Commission's PGA rule states that "Recoverable gas costs shall be offset by the revenues derived from transactions at rates that are not subject to the Gas Charge(s) if any of the associated costs are recoverable gas costs as prescribed by subsection (a) of this Section." In the Commission's order adopting this rule, it referred to the types of transactions covered by Section 525.40(d) as "off-system transactions" and noted that they may include capacity releases, sales for resale, buy/sell transactions and exchanges. The Commission concluded:

With respect to off-system transactions, the Commission finds the Staff's proposal appropriate. The utilities' proposals for revenue sharing, i.e., partial rather than full offset to recoverable gas costs, are inappropriate in the application of the Purchased Gas Adjustment as a means of encouraging utilities to maximize the number of prudent off-system transactions in which they engage. In fact, Illinois utilities have been engaging in such transactions, such as capacity release, without revenue sharing. The Commission is concerned that revenue sharing would create incentives for utilities to subsidize off-system transactions with on-system transactions and could therefore result in PGA gas charge increases. The Commission concludes that utilities already have incentives to engage in prudent off-system transactions which result in PGA decreases. Any additional incentives that a utility wishes to suggest should be handled in a Section 9-244 proceeding and should not be part of a general rule.

(Order, Docket 94-0403, August 23, 1995 at 8.) Therefore, the general rule is that revenues derived from "off-system" transactions at rates that are not subject to the Gas Charge should be flowed back to PGA customers as an offset to recoverable gas costs, if any of the associated costs from these off-system sales are recoverable gas costs.

If the Commission decides that the Orders in Docket Nos. 93-0320 and 95-0219 are controlling in this docket, which it should not, the Commission should still adopt Dr. Rearden's \$8,209,614 adjustment. In Docket No. 93-0320 the Commission allowed for different ratemaking treatment for certain Hub transactions by Nicor, but that was for a Hub that:

facilitates the movement of gas between and among interstate pipelines attached to the Company's system. The Hub also permits storage of gas for short periods of time before redelivery to an interstate pipeline. The Hub also will accommodate gas title transfers.

(Order, Docket No. 93-0320, March 13, 1996 at 1.) In the Commission' order, in Docket No. 95-0219, issued just a few weeks after the issuance of the order in Docket No. 93-0320, the Commission again addressed the issue of the Hub and off system revenues and the PGA. The Commission found that off system revenues were not to be included in base rates, but instead were to flow through the PGA:

Therefore, the Commission will accept Staff's alternative proposal to remove the entire \$ 1,164,000 forecast of revenues from the rate case and direct NI-Gas to reflect its actual off-system storage revenues in its PGA calculation, net of related costs not otherwise [*40] recovered and properly shown in the reconciliation proceedings, in accordance with 83 Ill. Adm. Code 525.40(d), beginning with its first PGA calculation filed subsequent to its compliance rate filing in this case.

(Order, Docket No. 95-0219, April 3, 1996, at 17.) While that order did acknowledge that some Hub revenues were to be included as part of base rates (Id. at 14-15), the Company has failed to meet its burden and has failed to show that the over \$8 million in what it calls are non-PGA Hub revenues for 2003 were for a Hub that:

facilitates the movement of gas between and among interstate pipelines attached to the Company's system. The Hub also permits storage of gas for short periods of time before redelivery to an interstate pipeline. The Hub also will accommodate gas title transfers.

(Order, Docket No. 93-0320, March 13, 1996 at 1.)

A similar adjustment for Nicor essentially failing to meet its burden of proof was proposed by Staff witness Richard J. Zuraski in the Company's 2001 and 2002 Rider 6 PGA reconciliations. (Docket Nos. 01-0705 and 02-0725, respectively) In those consolidated dockets, Nicor stipulated to the adjustment for the 2001 and 2002 PGA reconciliations and the Commission ultimately adopted Staff's adjustment. The order from those consolidated dockets stated the following:

1. The Record

The Chicago Hub is a name used to identify services offered by Nicor that are not governed by Commission tariffs, but that rely on the Company's access to various natural gas storage and transportation assets in northern Illinois. Nicor and Staff submitted testimony addressing whether revenues from certain of Nicor's Hub services transactions from 1999-2002 were properly flowed through the Purchased Gas Adjustment ("PGA").

The Stipulation between Nicor and Staff fully addresses this issue, and Nicor Gas will refund \$6,150,917. Although CUB did not raise this topic as an issue in these proceedings or submit evidence relating to it, CUB supports Commission approval of the refund agreed to in the Stipulation.

2. Commission Analysis and Conclusion

The resolution of this issue as proposed in the Nicor/Staff Stipulation is reasonable. The Commission notes that no party objects to the proposed resolution and that it is supported by the record. Accordingly, the proposed resolution contained in the Staff/Nicor Stipulation is adopted, and Nicor is directed to refund to ratepayers \$6,150,917.

(Order, Docket Nos. 01-0705, 02-0067, 02-0725, June 5, 2013 at 6) (emphasis added).

The Company's own testimony in this docket supports Staff's position that Nicor failed to meet its burden of proof. Company witness Gilmore, whose revised testimony was subsequently adopted by Mr. Sherwood, testified that the Company's strategies that were in effect during the 2001 and 2002 reconciliation years were still in effect in 2003. (Nicor Ex. 1.0R, 15.) The only witness¹ who testified for the Company in response to Dr. Rearden's over \$8 million adjustment for a misclassification of Hub revenues, was an outside consultant, Mr. Gulick, whose involvement in the case was limited to addressing just two specific questions. Those questions being: (1) "did the Company's actions in providing Hub services in 2003 cause an increase in the costs of gas paid by Nicor Gas' PGA customers"; and (2) "whether the Company's decisions in 2002 and 2003 to use these aquifer storage fields were made with the understanding that costs paid by the PGA customers would increase." (Tr. 112:15 -- 21, March 17, 2015.) Mr. Gulick offered no testimony that the revenues from the "non-PGA revenues" related to transaction for a Hub that "facilitates the movement of gas between and among interstate pipelines attached to the Company's system. The Hub also permits storage of gas for short periods of time before redelivery to an interstate pipeline. The Hub also will accommodate gas title

¹ Sherman J. Elliot provided surrebuttal testimony in response to Dr. Rearden's rebuttal testimony, However, that testimony was stricken. (ALJ Ruling, March 16, 2015).

transfers.” (Order, Docket No. 93-0320, March 13, 1996 at 1.) In addition, he offered no detailed testimony that the revenues were from transactions that were not for off-system revenues, which the 1995 Nicor rate case order, Docket No. 95-0219, clearly ordered to be offset against costs in Nicor’s PGA.

Since the Company has failed to provide detailed evidence to the contrary, it has not met its burden of proof and the over \$8 million in “non-PGA revenues” should be subject to the general PGA rule that off system storage revenues flow through the PGA, as proposed by Staff witness Dr. Rearden and therefore the Company’s PGA costs should be adjusted downward by \$8,209,614.

c. There is no inconsistency between Mr. Maple’s direct testimony and Dr. Rearden’s rebuttal testimony.

Despite Nicor’s claims to the contrary, there is no inconsistency between Mr. Maple’s direct testimony and Dr. Rearden’s rebuttal testimony. The Company argues that “Staff never offered any explanation for the inconsistency in the positions of Mr. Maple and Dr. Rearden, nor did Staff ever identify any fact that changed from 2003 to the time of evidentiary hearing that led to a change in Staff’s position.” (Nicor IB, 18.) First Dr. Rearden who has Ph.D. degree in economics (Staff Exhibit 4.0(Public), 1.) and Mr. Maple who is a gas engineer (Staff Exhibit 2.0, 1) have different expertise and focused on different issues in this PGA reconciliation docket. Mr. Maple offered no opinion on the Hub in his direct testimony. He never mentions the Hub in his direct testimony. What Mr. Maple did testify to is that he examined Nicor’s purchases of gas during the reconciliation period and made a determination whether the decisions behind the purchases were prudent. (Id., 2.) Dr. Rearden on the other hand, who again is an economist not an engineer, specifically addressed the Hub. He testified that Nicor caused an imprudent

increase in gas costs by how it provided Hub services. Dr. Rearden's testimony was responsive to CUB witness Mierzwa's testimony and Nicor witness Gilmores's rebuttal testimony. (Staff Exhibit 4.0(Public), 2.) Further, Dr. Rearden noted that he did not argue that purchases were made imprudently, but rather that they were imprudent because they unnecessarily raised gas costs. ("So the disallowance that we seem to be discussing here is not related to imprudently buying gas in the sense that the utility pay above marked price, but that it was buying gas because it had loaned out gas to Hub customers and needed to support those loans.") (Tr. 179:1-6, March 17, 2015,) Since Mr. Maple offered no testimony concerning the Hub in his direct testimony, there can be no inconsistency and there is no inconsistency between his direct testimony and Dr. Rearden's rebuttal testimony.

d. The Commission should reject Nicor's claim that it had to use Hub loans to empty its aquifer storage fields.

Nicor argues that an examination of the prudence of its gas costs must taken into account how it plans and operates its gas supply activities. (Nicor IB, 22.) Staff readily admits that Nicor must cycle its aquifer storage fields. That is, Staff agrees that the aquifer storage fields must be sufficiently filled and emptied each year. (Tr., 174:5, March 17, 2015.) Staff, however, did explain that Hub transactions were not required to empty those storage fields. In its rebuttal testimony, Staff showed that Nicor planned to use storage capacity for Hub loans rather than to supply ratepayers. Nicor offers no explanation why it could not have planned to use that capacity and gas to supply sales customers. (Staff Ex. 4.0(Public), 9:182-10:207; 8:165-175.)

e. Nicor confuses operations with accounting when trying to justify its actions favoring Hub transactions.

Nicor argues that Hub loans did not affect its ability to withdraw gas for PGA customers because the load served by the Hub withdrawals was not associated with PGA customers' demand. (Nicor IB, 27.) Staff agrees that the load for any one customer is "not associated with" the load for any other customer. While true, this statement has no meaning. It is an attempt to assume away the problem with how Nicor used its storage. Nicor could have chosen to use deliveries from storage to supply Hub customers or supply sales customers. It chose to supply Hub customers in return for payments that were not used to offset the PGA. (See, for example, Staff Ex. 4.0(Public), 10:208-217)

Nicor's IB details how the same set of numbers add up to the same number if the additions are accomplished in a different order. (Nicor IB, 27-34.) The commutative property of addition² is uninformative concerning the issues in this docket. The key issue is the effect that Nicor's actions had on the PGA. As explained in Staff's IB and reiterated above, Nicor loaned more gas to Hub customers, than Hub customers injected into storage. (Staff Ex. 4.0(Public), 4:75-79) The gas stored for transportation customers was not used to support those loans. (Staff Ex. 4.0(Public), 4:70-79.) To support those loans, Nicor had to use gas otherwise purchased for ratepayers. (Staff Ex. 4.0 (Public), 7:152-154.) Therefore, the gas purchased and stored for sales customers had to be the source of support for those loans.

² The commutative property of addition is that the addends can be added in any order and the sum is always the same. That is: $a + b = b + a$.

Further, the gas that Nicor loaned out was relatively expensive, but the gas received in return was much less valuable. (Id. at 18:382-383.) Since Nicor used gas purchased on sales customers' behalf to support the loans, it necessarily raised PGA gas costs.

f. Nicor's accounting treatment does not make its decision to support the Hub loans prudent.

As discussed above, Staff disagrees that it "entirely ignored the fact that the Company's operation of its storage fields and the Company's accounting for the gas in those storage fields are entirely separate and distinct matters." (Nicor IB, 38.) In fact, in Staff's view this is the reason that it regards Hub services as being provided by displacement. Displacement means that the ownership (or color) of the gas actually being provided to any one customer is not identifiable. (Staff Ex. 4.0(Public), 12:255-13:277.) It is only through the accounting that Nicor knows how much to charge its retail customers and track deliveries to Hub customers. Nicor could only support its Hub loans by providing gas otherwise bought to supply ratepayers; therefore, those revenues must be used to offset the PGA. (Id. at 8:176-9:181.)

g. Staff applied the appropriate prudence standard and did not use hindsight in its review of Nicor's actions in 2003.

While it is true that the prudence standard mandates that "only those facts available at the time judgement was exercised can be considered" (Nicor IB, 40), the concept of "facts available at the time judgement was exercised" means that the Commission is required to determine whether a decision is prudent based on what the utility knew or should have known. (See, e.g. Illinois Power Co. v. Illinois Commerce

Commission, 245 Ill. App. 3d 367, 371 (1993).) Nicor assumed that the Hub loan transactions had no cost and stopped its analysis there. Nicor did not investigate whether Hub transactions generated more revenue than the cost to perform them in 2003. (Staff Ex. 4.0(Public), 15:323-16-344) Mr. Gulick was not aware of how Nicor priced the transactions. (Tr., 141-142, March 17, 2015.) Nicor failed to consider the cost to ratepayers caused by the loans. (Nicor Ex. 7.0, 5:103-104) Accordingly, it should therefore compensate ratepayers for the increased costs that occurred.

Finally, as to the relevance of the Nicor 2005 rate case Order and the 2006 Order in the PGA reconciliation for the Peoples Gas Light and Coke Company, Docket No. 01-0707, (Nicor IB, 41-42.), it is true that those decisions concerning the treatment of Hub and Hub like revenues does not control the Commission's decision in this docket. However, those orders demonstrate that requiring Nicor to flow Hub revenues through the PGA in this docket is certainly consistent with the PGA rules which were in place during the reconciliation year. (Staff Ex. 4.0, 11:229-12:245)

2. Recommended reconciliation and Factor O.

As set forth in Staff's IB, the Commission should adopt Staff's recommended reconciliation and related Factor O for the 2003 reconciliation. Staff recommends that the Commission accept the reconciliation of revenues collected under the purchased gas adjustment clause with actual costs as reflected on Staff Exhibit 3.0, Schedule 3.01, Column (d), as set forth in Appendix A to Staff's IB.

Staff recommends that the Commission direct Nicor Gas to refund the Factor O amount of \$18,476,028 (Staff IB, Appendix A, 1 of 3.) in the first monthly PGA filing after the final order in this proceeding is entered, including any accrued interest from December

31, 2003 to the date of the order, using the interest rate applicable to each year from 2004 through the year in which a final order is entered.(83 Ill. Adm. Code 525.60(b).) Nicor and CUB-AG did not address in their IBs, the issue of if there is a refund, which there should be, when it should be refunded back to ratepayers.

III. CONCLUSION

Staff respectfully requests that the Illinois Commerce Commission approve Staff's recommendations in this docket.

Respectfully submitted,

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